Managing Receivables During Tough Times

By C. ROBIN SZABO

Instigating reluctant debtors to write those checks can be a whole lot easier, if you heed 10 simple tips.

As the number of business failures continues to escalate, credit and collection managers are reminded again that, in difficult economic times, accounts are more perishable and collection recovery of past-due receivables decreases. Even so, some of our clients are allowing the troubled economy to compromise enforcement of their payment terms, extending the time they permit receivables to age before beginning formal collection efforts. Taking action on past-due receivables is key to maintaining your organization's health until the economy rebounds.
Tough times demand a well-defined policy and the determination to enforce it. Because receivables are more perishable, it is critical to "keep your antennae up," prepare to respond quickly at the first sign of trouble and adhere strictly to your company's collection procedures and timetable.

Here are 10 tips that work well in difficult times and will work even better when good times are here again:

1. Monitor troubled industries. Some industries and some areas of the country are invariably hit harder than others in difficult economic times. Industry sectors of greatest concern through 2008 and 2009 are housing and building products, retail and consumer products, music and entertainment, restaurants, financial institutions, automotive, transportation and travel.

Regularly review financial magazines, newspapers and financial Web sites to help you stay abreast of industry developments. Meet frequently with staff to exchange information and to ensure they are aware of the economic interdependencies among industries.

2. Watch for "red flags." We all have witnessed businesses in troubled industries that remain healthy and businesses in relatively untroubled industries that fail. Changes in markets, operations or management can quickly affect a company's health and stability.

Observing a customer's behavior is one of the best ways to recognize signs of trouble early on. Have the customer's paying habits changed? Has the customer requested a hiatus during an advertising schedule? Has the customer attempted to cancel an existing contract? Has the customer defaulted in any way? If the answer is "yes" to any of these questions, get an updated credit report and discuss the problem with the customer immediately.

Watch for delaying tactics. Does the customer repeatedly ask for documentation that has already been sent? Are there disputes or discrepancies that could indicate cash flow problems? Does the customer mention a dispute only after you request payment? Does the customer fail to pay after the allegation of a dispute is proved groundless? If so, it is time to place the account with a third-party collector.

3. Prioritize collection efforts. Make new customers your first priority. Allowing a new customer to set a precedent for late payment will encourage a pattern of delinquency as well as an expectation that late payment is acceptable. Even if the amount owed is small, the long-term benefits of establishing your position early are incalculable.

Go for the "high stakes" as your second priority. If you don't have time to call every account, call the ones with which you have the most to lose if they fail to pay.

Target the slow pays as your third priority. There will always be some customers that are notoriously late with payment. A quick, good-natured "reminder call" is often all it takes to bring in the money.

Once the first three priorities are taken care of, call or send letters to remaining accounts that are past due 15 days or longer. Make as many calls as possible without compromising the thoroughness and attention due each account. Do not spend an inordinate amount of time on a small account with little chance of return.

4. Schedule your efforts according to your terms of payment. Start the collection process when the account falls 15 days past due. Follow up at least once a week. Communicate the call's purpose only with the person responsible for payment. If that person is unavailable, ask when he or she will be available, and call back promptly at the time suggested. Revoke credit privileges in accordance with your policies and procedures.

5. Team up with sales. Develop a mutually beneficial relationship with sales. Communicate regularly on both an informal and formal basis, reinforcing your understanding of the sales perspective and encouraging sales to inform you of any cash flow or management problems the customer may be experiencing.

Make sure salespeople reinforce your payment terms at the time of sale on new accounts. Consider asking the sales rep to help collect a delinquent account, either on the first attempt or after your first attempt meets with resistance. If the customer is experiencing a temporary problem period, a joint visit by both departments may help create an atmosphere of goodwill and cooperation and facilitate a manageable payment arrangement.

6. Document all communications. Get confirmation of responsibility for payment at the time of sale. If an agency is involved, clearly establish a “joint and several” liability position on all written contracts, invoices, and correspondence. Notify all parties involved of your terms and conditions. Send new accounts a “welcome” letter, which gives you the opportunity to thank clients for their business and restate your credit terms. Keep a record of every collection effort and communication. Confirm to the debtor, in writing, any money promised outside of 10 days.

7. Relate to your customer’s situation. Find out as much as possible about the circumstances surrounding the delinquency. Is there a legitimate dispute? If so, is the entire amount that the debtor owes in dispute, or is the debtor delaying payment on undisputed amounts as well? Are the company’s internal processes weak? How much has the economic slowdown affected the debtor’s industry? Is the company under-capitalized? Has the structure of the company changed?

Prepare yourself psychologically for the collection call. Try to anticipate the debtor’s responses, keeping in mind the heightened emotions and added stress that an economic downturn can induce. Foster an atmosphere of cooperation and mutual respect. Try to keep your sense of humor. A bit of tasteful, well-placed humor early in the conversation can help set the stage for collaboration and agreement.

8. Make the most of the “tools of the trade.” Assemble all documentation prior to making the collection call. Make sure the account activity information is accurate and up-to-date. Doing so will help you avoid the unfortunate circumstance of having to say, “I’ll have to get back to you” to a debtor who denies having made the buy, disputes the amount owed or denies liability for payment.

The time and effort you made to prepare for the call also sends a clear message that you intend to collect. If you have no signed contract or signed credit application, compile billing; traffic; sales records; confirmations of changes and cancellation, and all correspondence with the debtor.

Pick up the phone. The telephone is still the collector’s best friend and, short of a face-to-face meeting, the best tool for relating effectively with the debtor. Although the intrusive nature of a phone call can put the debtor on the defensive, this limitation can be overcome with discipline and diplomacy.

Stay positive and stay in control, no matter what. Speak slowly and deliberately. State the reason for the call in simple and direct language. Ask for payment in full, using words and tone that convey urgency and determination. After you make your statement, say nothing and wait for the debtor to respond. Silence is an often overlooked and underrated negotiation tool.

Give the debtor ample opportunity to explain the delinquency. Listen carefully. The explanation may provide additional information about the situation, clues about what might motivate the debtor to pay, and ideas for a mutually agreeable solution. Show genuine interest in resolving the problem, and allow the debtor to collaborate in formulating a solution.
If the debtor balks, try to motivate the debtor toward a change of attitude by appealing to his honesty and sense of pride. “I know your credit standing is important to you” or “We’re sorry that you misunderstood our payment terms, and we would appreciate payment in full today” motivates the debtor without challenging his integrity.

Once you have reached an agreement, “recap” the arrangement (or ask the debtor to do so) and end the call. Send a follow-up letter confirming the conversation, including the date of the call and the details of the agreed-upon payment arrangement. Allow only sufficient time for the check to arrive and for transmittal to take place, then call the debtor if the money fails to show up.

Use “form” letters to conserve time, effort, and cost. A well-worded letter can be the least offensive collection communication and may be the best overall choice for organizations that do not have the resources for telephone calls or personal visits.

Organizations should develop their own “form” letters with two or three variations of each message. The style should be clear and uncomplicated; the structure should be simple and easy to follow, and the length should be short (one page with plenty of “breathing room” around the content). State the amount due; the number and date of the invoice, and ask for action.

The “First Reminder” letter should be mild and non-accusatory and should suggest that the nonpayment is probably the result of an oversight, which is often the case. The “Second Reminder” letter should express puzzlement – in a non-accusatory way – that the First Reminder has gone unanswered. The “Third Reminder” letter should reflect growing concern and include a positive statement to motivate the debtor to pay. “Payment of the invoice by the 15th will ensure your continued favorable credit standing” is positive, while “If you don’t pay, your credit standing will be compromised” is negative.

If the “Third Reminder” elicits no response, consider using another method. Depending on the size and nature of the account, a combination of letters, phone calls, and even a personal visit may be most effective. The “Final Demand/Other Action” letter should make your final request for payment and include a statement of your next action if the debtor fails to pay. “Other action” usually means referral of the account to a third-party collector.

9. Enlist the services of a third-party collector. It is impossible to totally eliminate overdue accounts and bad debt. Any organization that claims to have done so has probably been overly cautious in extending credit and, as a result, has missed some valuable opportunities. A good collection agency can improve your bottom line by maximizing recovery on past-due accounts while preserving your relationships with your customers.

Choose a collection agency with which you want to form a long-term partnership. It not only should reflect your company’s ethics and standards but also should have extensive experience in your medium. A superior agency will also be actively involved in organizations and activities that keep it abreast of the latest developments, rules and regulations in both the collections and media industries.

Turn over accounts to your third-party collector when they are 90 to 120 days past due, depending on how perishable they are. Accounts in more volatile industries should be turned over at 90 days, while those in more stable industries may be allowed to age longer.

Maximize the return on third-party efforts. Consolidate pertinent documents and provide complete documentation. Cease all in-house collection efforts immediately after placing the account. Notify the collector of any payment or communication from the debtor.

10. Maintain balance. The current economic downturn has taken a significant toll on consumers and businesses, many of which will continue to feel its effects for some time after economic reports indicate that the cycle has ended.
Where there is adversity, however, opportunity is never far behind. The opportunity for media organizations at this time is to maintain a healthy balance between firmness and understanding, diligence and flexibility, analysis and creativity. Such organizations will reap significant benefits from those efforts not only in the short term, but also in the good times ahead.

C. Robin Szabo is president of Szabo Associates Inc., media collection professionals. He can be reached at (404) 266-2464 or robin@szabo.com.